

the sanitary sewer rates are not being used to pay for stormwater projects. The \$1,939,039 of stormwater street projects construction costs were included in the sewer bond issue so the City would only need to complete one bond issue to fund all sewer-related projects instead of two separate bond issues to save on issuance costs. Of the \$1,939,039 in stormwater street projects, \$760,000 of that amount is being funded from a Community Crossings Grant received by the City and \$700,000 will be funded by an INDOT Grant that the City has applied to receive. The remaining amount will be funded from a twenty year bond issue. After taking into account the grant funds, construction contingencies (\$193,994) and engineering fees (\$154,700), the allocable percentage of the remaining stormwater street projects construction costs (\$794,043) to the total construction costs (\$3,849,939) for all the projects is 20.62%. Therefore, the stormwater utility is pledging and paying for 20.62%, or \$57,500, of the annual estimated debt service payments (\$278,690) on the twenty year bond issue each year.

The proposed rates have been designed to recover the legal revenue requirements of the Sewage Works. As a means of explanation, we note the following based on the spreadsheet you provided:

- Operation and Maintenance Disbursements – While the actual operating disbursements were \$616,043 for calendar year 2019, that was low when comparing to previous years. We prepared a test year for the 12 months ended March 31, 2020 and the actual operating disbursements were \$661,902. We used this amount to calculate pro forma operating disbursements, which we estimate to increase to \$804,700 in calendar year 2023 when including inflation. There are also other adjustments to the test year actual operating disbursements for periodic maintenance, which is larger maintenance items on lift stations and the treatment plant that only occur every ten to fifteen years, but rates need to be set at a level to build cash balances to fund these items when that maintenance is necessary.
- Transfer to City / Tax – The sewage works only made one semi-annual payment in lieu of property taxes (“PILOT”) of \$18,402 in calendar year 2019 because the cash balances were declining. The current annual PILOT is calculated to be \$36,804. The first two phases of the rate increase set the rates at a level to support this PILOT amount. For Phase III after completion of the project, the annual PILOT is calculated to be \$75,582.
- Capital Improvements (smaller) – The estimated annual amount is based on the calculated depreciation allowance for the current capital assets and proposed capital projects, which is \$371,682. This annual amount should be set aside to build cash reserves to fund larger capital projects or to replace aging infrastructure in future years.
- Debt Payments – There are two proposed bond issues that will change the historical annual debt service payments. The first proposed bond issue

is to pay off the currently outstanding bond anticipation notes in calendar year 2020 and the estimated annual debt service payments are \$130,200. The second proposed bond issue is to pay off the proposed bond anticipation notes that will fund the proposed construction projects in calendar year 2023 and the estimated annual debt service payments are \$278,700. In calendar year 2023 these will be the only two bond issues outstanding for estimated annual debt service payments of \$408,900.

- **Debt Service Reserve (“DSR”)** – This is a revenue requirement that needs to be included to be funded through rates. With a new bond issue, the DSR requirement increases and the sewage works must fund that increased DSR requirement over a five year period. The purpose of the DSR requirement is to provide a margin of safety and protection against default on the annual debt service payments and is a requirement of selling the bonds. These monies will be held by the sewage works for the life of the bonds. The annual amount for the increase in the DSR requirement related to the first proposed bond issue is \$16,000. The annual amount for the increase in the DSR requirement related to the second proposed bond issue is \$3,000.
- **New Capital Improvements without Storm Sewer Project and New Capital Improvements with Storm Sewer Projects** – These items are funded through the proposed bond issues.
- **Current Sewage Fees** – The annual receipts at the current sewer rates decreased in calendar year 2019. Therefore, to be conservative we assume no increase in annual receipts.

Proposed Sewage Fees – The proposed rate increase over three phases is estimated to collect annual receipts of \$1,324,600 in calendar year 2021, \$1,518,200 in calendar year 2022, and \$1,599,700 in calendar year 2023. After calendar year 2023, to be conservative we assume no increase in annual receipts. (As an offset, there are no annual increases in operating disbursements assumed either.)